FY 2007 Budget Presentation

Mr. Chairman, members of the Committee,

Thank you for the opportunity to present the 2007 Medicaid budget request to you. Because of the leadership of Governor Riley and the commitment and cooperation of your committees, Medicaid was funded last year with an increase of 65 million dollars, allowing Medicaid to continue to pay for medically necessary services for almost one million citizens of Alabama.

Program Overview

As many of you know, Alabama Medicaid pays for the most limited and basic health care services to the poorest individuals. Except for nursing homes, financial eligibility is set at the minimum federal requirements. We have one of the most conservative adult benefit packages in the country. Even at existing minimum levels of services, Medicaid pays for health care for almost one million people, which represents:

- 20.7% of Alabama's population
- 37.9% of Alabama's children under the age of 19. Of these children, almost 47% are in families with at least one working caregiver.
- 46% of all deliveries including the prenatal care responsible for the significant decrease in the state's infant mortality rate
- 19.7% of seniors 65 and above
- Over 70% of all nursing home patient days in Alabama are paid for by Medicaid[1]
- There are 11 counties in Alabama where 50 percent or greater of the children's population is eligible for Medicaid.[2]

[1] 74% of nursing home days in participating nursing homes, 72% of nursing home residents in ALL nursing homes
[2] Bullock (66%), Butler (56%), Conecuh (56%), Dallas (65%), Greene (66%), Hale (50%), Lowndes (55%), Macon (50%), Perry (63%), Sumter (65%), and Wilcox (71%).

Medicaid remains the cornerstone of Alabama's healthcare infrastructure. Without Medicaid revenues, critical components of the State's healthcare system would not continue to exist even for those of us blessed to have private insurance. During FY 2005, Medicaid paid over 3.7 billion dollars to businesses such as hospitals, physicians and pharmacies for various health care services rendered; $2.7 billion represented federal funds brought into Alabama. In FY 2006, Medicaid will pay approximately $3.9 billion for health care services. These expenditures support more than 84,000 jobs within the state.[3]

Year in Review

Without question, the challenge of how to fund the most basic health care needs of low income children and adults who qualify for Medicaid represents one of the most critical issues to be faced in the upcoming legislative session. In addition to state funding and program growth challenges over the last year, Medicaid faced the threat of federal program and funding cuts as well as the need to respond to devastating natural disasters. I would like to take a few moments to update you on Medicaid's response to Hurricanes Katrina and Rita, federal budget issues, as well as highlight several new Medicaid programs and initiatives.

Hurricane Response

The devastation faced by Alabama and our sister states as a result of Hurricanes Katrina and Rita was like nothing I have ever seen. Thanks to the direction and commitment of Governor Riley, Medicaid was able to focus on providing medically necessary emergency services to Medicaid eligible evacuees from Alabama, Louisiana, Mississippi, and Texas immediately after the disasters. Medicaid's emergency response plans were implemented immediately and allowed for flexibility in prior authorization and other program requirements.

[3] Economic Impact of the Alabama Medicaid Agency on the Economy of the State of Alabama and its Counties, Amy K. Yarbrough, MSHA, MBA, Administrative Fellow, University of Alabama at Birmingham, 2002.

Additionally, based on a verbal agreement with the Center for Medicare and Medicaid Services (CMS), Alabama was granted flexibility in the eligibility process for evacuees needing health care services. This flexibility allowed for self declaration of evacuee status, and income and disabilities. Alabama later received written approval from CMS through a waiver.

Medicaid coordinated closely with directly impacted states as well as our own provider network, advocacy community and sister state agencies such as DHR, Public Health and Mental Health. Not only were simplifications made to the patient enrollment process for evacuees, but Medicaid developed and implemented a shortened provider enrollment form, as did the other impacted states for Alabama providers.

As of January 31, 2005, Alabama had enrolled over 4,000 evacuees into our temporary evacuee Medicaid program. These individuals may receive up to five months of Medicaid coverage through the Alabama program. Pregnant women enrolled through the evacuee program may receive care through their delivery and 60 - day post partum period. Although a commitment has been made by CMS to fund the costs of these evacuees for the host state with 100% federal funds, the mechanics of this payment have yet to be determined. In addition, without additional federal funding, Alabama Medicaid will be required to fund the state share for any Alabama evacuee that relocated to another state and enrolled in their waiver program.

As a component of Alabama's disaster response waiver, CMS also approved the operational authority to establish an uncompensated care program. This program will allow providers to request reimbursement for care provided to hurricane evacuees from disaster counties or parishes who had no health insurance coverage through private insurance, Medicaid, Medicare, ALLKIDS, charity or other voucher programs. The funding of this program is to come totally from federal sources. The exact federal source of funding for the uncompensated

care program has not been established by CMS or Congress. Alabama's participation in the program is contingent on receipt of 100% federal funding.

Alabama Medicaid worked closely with our provider community, our advocacy networks and other state agencies to ensure swift assistance to those in immediate need. I am very grateful for the leadership shown by Governor Riley, the cooperative spirit of all involved and the excellent skills exhibited by the Medicaid staff. Together we were able to relieve some of the tremendous stress faced by these dislocated individuals.

Federal Issues

As many of you know, the relationship between Medicaid and CMS was plagued with tension for over 10 years as a result of differing policy interpretations. Last year, CMS outlined 16 issues representing differences between CMS and Medicaid with a potential disallowance of 1.4 billion dollars. However, I am pleased to report that the agreement reached with CMS last year continues to hold; Medicaid and CMS have made significant progress in improving communication and coordination of policy matters as they arise.

Congressional Action

Congress, as we speak, is working on the Budget Reconciliation bill for 2006. That bill has several provisions that will be beneficial to Alabama. The most significant provision is the hurricane relief which is estimated at 125 million dollars. In addition, Congress is tightening the asset transfer provisions for eligibility in nursing homes which will enable the Medicaid Agency to provide services to the truly needy in our state.

Access to Physician's Services

Patient 1st

As many of you know, Patient 1st is a program designed to create a medical home for Medicaid patients by linking each patient with a primary medical provider also known as a PMP. Patients must either receive services directly from their PMP or receive a referral from their PMP to go to another provider. The goal of Patient 1st is to ensure that patients receive the most appropriate care in the most appropriate setting. The areas offering the most opportunity for improvement include addressing the inappropriate use of the emergency room and encouraging the use of lower cost drugs and generics, where appropriate.

Patient 1st program enhancements include collaboration with the University of South Alabama and the Alabama Department of Public Health to place in-home monitoring equipment for patients with chronic diseases. This equipment monitors the patient's condition on an on-going basis and provides daily reports to the patient's primary physician; problems are monitored by 24-hour nursing personnel.[4]

In addition, Medicaid has partnered with Blue Cross Blue Shield to provide information to physicians about medications a patient is receiving. InfoSolutions, a software program donated by Blue Cross Blue Shield, is available to physicians and provides a wealth of information on an individual patient's medical history. Often a physician writes a prescription for a patient, but the patient does not have the prescription filled or may have medicines prescribed by other physicians. Through this partnership, physicians have access to paid claims

[4] As of 1/5/2006, there are 30 patients participating in the home monitoring program.

information from BCBS and Medicaid so that they can track all medications being taken or not being taken by a patient.[5]

Partnership for Enhanced Physician Rates

Even with its limited resources, Medicaid is constantly reviewing our programs and trying to improve services to our recipients and our providers. Through a partnership between Medicaid and the teaching hospitals in Alabama we are able to improve access to medically necessary specialty care provided through both teaching hospitals and for community physicians in a budget neutral manner.

Medicaid worked with the University of Alabama and the University of South Alabama and received federal approval which enables Medicaid to increase the rates paid to physicians at both teaching hospitals and within the community. The funding mechanism for the enhanced payment rates will be provided through a joint relationship with both Universities.

The state teaching hospitals have offered to transfer state funds to the Medicaid program. The amount of the enhanced rates available will vary each year based on the amount of matching funds available to Medicaid through the University of Alabama and the University of South Alabama.

Pharmacy Program

Medicaid has implemented various pharmacy initiatives over the last several years including the Preferred Drug List, brand limit, therapeutic duplication edit, and increased physician and pharmacy education. These programs have proven an effective way to foster appropriate utilization of pharmacy benefits in a cost efficient manner. The Pharmacy program

[5] As of 12/2005, there were 650 physicians who had agreed to participate with 170 physicians actually using InfoSolutions. Participating physicians receive 50 cents per patient for their participation.

expenditures are expected to be approximately 20 percent less for FY 2007 due to these initiatives. These savings have been reflected in our budget submission.[6] Medicaid will continue to closely monitor the outcome of these initiatives. In addition, we will be assessing the impact Medicare Part D will have on our initiatives. If, after a year of full implementation of Part D, we find that the cost savings programs are no longer effective we will make the necessary changes.

Program Integrity

Medicaid has implemented several initiatives to improve program efficiencies. Our work with Health Watch Technology (HWT), a company that helps healthcare payers use their paid claims data to recover overpayments, address fraud and abuse, and implement other cost savings programs, continues. HWT is paid a fee based on the total dollars collected and deposited.

To date HWT has conducted post payment reviews of pharmacy, outpatient hospital, physician and other medical claims data. Over 4.5 million dollars has been collected from providers for claims that were billed in error. Also, this initiative has helped educate providers about appropriate billing practices and on Medicaid policies. While we have recovered monies improperly billed we have not identified any uses of overt fraud from any of our providers. This program has assisted the Agency in improving its policies and procedures to make participating in the Medicaid program easier.

Medicare Drug Program

As you are aware, Congress passed the Medicare Modernization Act (MMA) in late 2003. Effective January 1, 2006, the MMA began providing Medicare beneficiaries with access

[6] FY 2006 savings were estimated at $119 million out of a program of approximately $600 million before federal rebates; 101.6 million net rebate. Expenditures for pharmacy for FY 2007 are estimated at $443.6 before rebate and clawback payment. Without program inititiatives, it is estimated that this cost will be $554.5.

to prescription drug coverage known as Medicare Part D. In order to receive this benefit, beneficiaries must choose and join the Medicare drug plan that meets their needs. Anyone who is on Medicare can get the coverage, whether you get just Medicare Part A for hospital coverage, or Parts A and B, for hospital coverage as well as doctor's visits and outpatient care. Approximately 750,000 Alabamians are eligible for this new benefit. The Department of Senior Services is the lead Agency coordinating public education on enrollment and the new drug benefit. They have done an extraordinary job getting this information out to seniors throughout the state.

Medicaid is responsible for making a monthly per member per month payment to the federal government to cover the drug costs of individuals who qualify for both Medicare and Medicaid (full dual eligibles). Medicaid will make a payment of state funds of approximately $5.5 million per month beginning in February 2006. It is anticipated that this payment will be budget neutral to Medicaid for FY 2006, but the effect on FY 2007 has not yet been determined.

An additional impact on Medicaid from the new program may be seen through an increase in new Medicaid eligibles as a result of the aggressive Medicare outreach. Based on previous experience with comparable outreach by the Social Security Administration, it is estimated the growth in eligibles could cost the program $6 million in FY 2007.

FY 2006 Overview

Thanks to the appropriation for fiscal year 2006 recommended by Governor Riley and approved by the Legislature, Medicaid anticipates completion of the year at existing levels of service, eligibility, and reimbursement except for the few areas mentioned previously. The remaining unknown in FY 2006 is the potential increase in the number of eligibles added to the Medicaid program as a result of the aggressive Medicare outreach related to the implementation of the new Medicare drug program.

FY 2007 Overview

Medicaid has requested an additional 92.6 million dollars for FY 2007 which represents the funding needed to continue Medicaid services and reimbursement at the existing level. This request is based on the continuation of existing programs such as the Preferred Drug List, the 4-brand prescription limit, Patient 1st, and other program audits and program efficiencies.

Inflation and Utilization Increases[7]

With very conservative estimates, inflation represents an increase of 43.7 million dollars. This inflation calculation considers both the increase in the cost of providing health care as well as the increase in recipients and utilization. Given that we have frozen rate increases except for the nursing homes and physician rates, most of the increase in this category relates to the increase in the number of eligibles.

Change in FMAP

As a result of the continued improvement in Alabama's economy, the state share percentage required to pull down the federal match has increased from 30.49% to 31.15%, or a loss of 44.1 million state dollars. The current FMAP program no longer works and major reform

[7] Nursing Homes 4%, Pharmacy 10%, all other programs 3%

in this formula is necessary. We will be working with our Congressional delegation to implement the needed changes.

Loss of Carryover

Medicaid carried over 4.8 million dollars in FY 2006 that will not be available for carry over in FY 2007.

Again, Mr. Chairman, I would like to thank you for your leadership and for the support of the Legislature of the Medicaid Program. My presentation and 2005 Medicaid statistics by county are posted on our website at www.medicaid.state.al.us.

I am happy to answer any questions you may have.